PGIM
India Mutual Fund

Market Outlook

May, 2019

Equity Market

ECONOMY IS CURRENTLY IN A TRANSITIONARY MODE

The market that was

India markets (Nifty) closed the month higher by +1.5% and the Nifty Midcap 100 outperformed, closing higher by +2.3%. The incumbent Modi led NDA government returned to power with a thumping majority. From the 543 constituencies in the lower house, BJP and NDA secured 303 and 353 seats respectively in 2019. This was the first time since 1971 that an incumbent prime minister had secured an absolute majority for the Party for a second successive term. Key outperforming sectors in last one month were Industrials and Financials while Healthcare, IT and Discretionary were the key laggards.

4QFY19 GDP growth announced at end of the month stood at 5.8% much below street expectations, taking the annual number for FY19 to 6.8% (vs 7.2% in FY18). March IIP slowed to a 21-month low as growth in industrial activity contracted. The fiscal deficit shrunk substantially in March, meeting the revised FY19 target of 3.4% of GDP. April CPI print indicated signs of stabilisation as headline CPI came in at 2.9% as weakness in core inflation was squared off by rising food prices.

Going Forward

Overall FY19 NIFTY earnings growth stood close to 10%. Earnings shortfall in Financials and Auto sectors were partially offset by currency led gains in I.T. sector. The near term slowdown in economic growth and government activity due to the elections, should restart post the formation of new government again led by the BJP which should ensure policy continuity and passing of key legislative reforms.

FIIs maintained the buying trend in May to record inflows of US$1.3bn. DIIs turned buyers with inflows of US$750mn. Going forward the focus will now shift to the onset of monsoons, RBI policy and global trade war developments.

With a stable political mandate at the centre, we can expect continued reform implementation, increased public and private investments and a pick-up in economic activity and earnings growth. We believe the economy is currently in a transitionary mode and hence remain selective and stick to quality stocks with sustainable long term drivers.

Debt Market

ELECTION EVENT RISK OUT... YIELDS SOFTEN SHARPLY

Macro Review

CPI: CPI remained within RBI's projection for April 2019 (released in May 2019) printing at 2.92%. It was the ninth consecutive reading below 4%, being RBI's medium term CPI target. The good news was that the Core CPI Inflation moderated to 4.5%, we expect Core Inflation to moderate further, given the continued weakness in the economy.

Liquidity and Rates

Liquidity conditions improved during the month of May though it remained negative. Liquidity improved on back of higher government spending. RBI announced an OMO of INR 150 bn to be conducted on 13th June 2019, thus indicated that RBI will continue to address the liquidity requirements of the system.

Crude fell by 11% during the month as trade tensions between US and China took centerstage and along with higher inventories reported from US, helped ease the pressure on oil prices, overshadowing the effect of the sanctions on Iranian Oil.

The rupee was stable during the month as crude oil came down and FII flows continued during the month.

Bond yields fell during the month as oil prices came down. There were renewed concerns on global growth with bond yields across the globe coming down with the US treasury curve factoring in a Fed rate cut by the end of the year. RBI conducted OMO's worth 250 bn during the month and announced another OMO of 150 bn for June. Another positive during the Month was the clear Majority for the incumbent Government in the general elections and, it reinforced the continuity of the policies and removing the policy uncertainty from the markets.

Outlook

The outcome of the general elections is a positive for the market. Domestic Growth Concern persist with incoming data reinforcing the weakness across sectors. Global bond yields have been coming down on growth concerns amid heightened uncertainty on trade wars. The US yield curve is factoring in rate cuts by the US Fed by the end of the year. Crude oil prices have fallen and are likely to stay in a range.

We continue to expect further 50-75 bps rate cuts by RBI through FY20 to support growth. In our view the short end of the curve offers a better risk reward given that fiscally the situation is not that great and the rate cuts will support the short end of the curve, while a challenging fiscal situation can put pressure on the longer end of the curve.

Recommended Products

We recommend short duration products in the average maturity range up to 3 years, given the evolving macro backdrop.

We recommend the PGIM India Banking and PSU Debt Fund along with PGIM India Premier Bond Fund for investors seeking moderate duration exposure with a preference for high quality (AAA) portfolio. The PGIM India Credit Risk Fund in the 'accrual category' is recommended for investors seeking a higher 'carry' and with a slightly risk appetite.

PGIM India Dynamic Bond Fund is recommended for Investors with a higher appetite for volatility.

Fixed Income Market

	April 2019	May 2019	Change (in bps)
Overnight rate (NSE MIBOR)	6.20%	6.00%	-20
1 yr CD	7.63%	7.20%	-43
10 yr GOI Yield	7.53%	7.03%	-50
USD/INR	69.56	69.7	14 paise
IIP (Monthly with 2 month lag)	0.08%	-0.10%	-18
CPI (Monthly with 1 month lag)	2.86%	2.92%	6
5 Yr AAA PSU spread (bps)	50	45	-5
5 Yr OIS	6.35%	5.86%	-49
US 10 Yr yield	2.50%	2.12%	-38
CRR	4.00%	4.00%	0
Reverse REPO	5.75%	5.75%	0
REPO	6.00%	6.00%	0

Source: RBI Weekly Statistical Supplement & Bloomberg

Note: There has been a change in 10 Year Benchmark

Source: RBI & Bloomberg